

A brand bridging the revenue gap

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Gap Inc. Trims Old Navy and Banana Republic in Brand Overhaul

Gap Inc. [reported](#) quarterly earnings on Thursday with bad news for fans of two of its **brands**. The apparel giant announced it's closing 75 **Old Navy** and **Banana Republic** stores outside North America, including closing all its **Old Navy** stores in Japan, as part of an organizational right-sizing that **CEO Art Peck** hopes will reverse its fortunes.

Peck blames fashion miscues for the downturns at **Old Navy** and **Banana Republic**, while he moves to “create a more efficient global **brand** structure” across the company.

“As the pace of change across the apparel industry increases, now is the time to accelerate our transformation by scaling our product and operating capabilities across our global portfolio,” **Peck** stated. “By taking every opportunity to exploit our strategic advantages, our **brands** will be able to more fully harness the power of the enterprise to better serve their customers across channels and geographies.”

“I’m obviously disappointed that we’re going to be discontinuing operations,” **Peck** [commented](#) about the store closures on a conference call with Wall Street analysts. “But I view it as a sign of a good company that you acknowledge when a business isn’t going to deliver.”

In one worrying response to the earnings report, S&P lowered **Gap** Inc.’s stock on Thursday afternoon to [junk status](#), citing “weakened **brand** appeal.”

“The company remains committed to growing its **brands** in regions where it has a structural advantage and the greatest opportunity to gain market share,” **Gap** stated in its report. **Banana Republic** will continue to operate about 679 stores worldwide while **Old Navy** will maintain a global footprint of more than 1,000 after the store closures, which will take place through year-end.



While **Gap** is being spared store closures this round, it's been suffering too. As the *Los Angeles Times* [noted](#),

***Gap Inc.**, the San Francisco retailer that defined 1990s buttoned-down khaki culture, has suffered five straight quarters of falling sales at stores open at least a year. The **Gap** flagship brand has been battered even longer, its comparable sales dropping for the past nine quarters. Closing 175 of its namesake stores last year did not help its bottom line: Its fiscal 2015 profit was \$920 million, a 27% decline from the previous year.*

"**Old Navy's** near-term growth ambitions will be anchored in North America, including its most recent debut of company-operated stores in Mexico, as well as China and its global franchise operations," **Gap Inc.** stated. "Japan remains an important market for **Gap Inc.**'s portfolio, with a continued strong presence of more than 200 **Gap** and **Banana Republic** stores."

In its fiscal first quarter report, **Banana Republic** sales were down 11% in comparable same-store sales; **Old Navy** was down 6%; and **Gap brand** stores sales were down 3%. Blame competition from fast fashion retailers including **Zara**, **H&M**, Uniqlo and **Forever 21**; online rivals including **Amazon**—**Peck** announced at **Gap Inc.**'s annual shareholder meeting this week that he's open to joining forces with companies such as **Amazon.com** to reach more shoppers—and China's TMall web bazaar; the unpredictable weather's impact on [seasonal dressing](#); and Americans' overall belt-tightening, which is [hitting](#) department store retail brands particularly hard.

<https://youtu.be/JGIZt1YOCwI>

Peck, for his part, blames the **design** and fashion choices, a byproduct of the revolving door on the creative side of his brands. At **Old Navy**, the company is finding consumers rejecting the product mix, with too much emphasis on [fashion](#) over basics, and too much duplication. Still,

Peck is optimistic for its outlook:

*The most important thing to know about **Old Navy** is the **brand** proposition, the value proposition is compelling. I am very excited about the team getting the **brand** back on track. I have zero doubts about how compelling the value proposition is.*



At **Banana Republic**, the goal is to win back young professionals with hipper day-to-evening looks and smart casual pieces, such as its “pants for everybody” line and the bright print skirt recently worn by chic royal [Kate Middleton](#). As **Peck** acknowledged,

*We have more work to do to make sure that all of the product in the stores is being brought into the stores through the filters that the **brand** has put in place. That said, on key item buys, where we have been relentless about quality, fit and making sure that it honors the promise of versatility that Banana has always honored, I am seeing some very encouraging results there.*

Fashion trends are also unsettled, and a far cry from 2012 when [skinny jeans](#) in [bright colors](#) brought customers in the door; now they're still weighing whether [flared jeans](#) are right for them.

<https://youtu.be/ZPmlaSZ2JV8>

"It's almost a **brand** in search of an identity," said Neil Saunders, **CEO** of research firm Conlumino, of the **Gap Inc. brands'** challenges to the *LA Times*. "They either try things that are extreme, and it jars. Or they do it in a half-hearted way and it loses impact."

Athleta, **Gap Inc.**'s athletic wear chain, is in growth mode and [expanding](#) into girls' athleisure. As **Peck** noted in Thursday's call,

*I would be remiss not to call out the fact that Athleta continues to perform superbly for us, and it is positioned right in the sweet spot of the active space, which is growing faster than the overall rate of apparel. And it's a place where we are fundamentally omnichannel in our structure and very innovative all the way down to the fiber and fabric level in terms of product fabrications. So both as a growth driver in this company, but also as a source of **innovation** to the rest of our portfolio, I couldn't be happier having Athleta as part of the **Gap Inc.** family.*

Peck also told analysts on Thursday that **Gap Inc.** is moving to streamline its operating model, back-end CRM and supply chain so it can more nimbly react to customer demands, stating: "The company will take steps to create a more efficient global **brand** structure, enabling its portfolio of **brands** to more fully leverage its scale advantage and move even faster in anticipating and responding to the ever-changing environment and needs of customers."

Between closing stores and streamlining operations, it expects these efforts will save about \$275 million a year.



Peck has also been focused on improving the online shopping and buying experience across its **brands**, unifying **Gap** Inc.'s **brands** in a **Gap**-led portal, where **Old Navy**'s URL is oldnavy.gap.com for example, and increasing reserve-in-store while running frequent promotions (such as the "40% off everything" promo it kicked off today for **Old Navy**).

As **Peck** commented, they need to fish where the fish are, which is why being open to selling through **Amazon** makes sense: "We are committed to making sure that we are where our customers are. And today, our customers have obviously moved in **digital**, very significantly to a mobile experience. And we are running as quickly as we can to make sure that we run alongside them everyday. **Amazon**'s presence in e-commerce is undeniable in this country, and therefore, to not fully consider all the options of distribution for us would be to not be thinking about things that were important to us."

As for the future, the focus is increasingly on mobile, **Peck** added, pointing to the creation of a chief customer officer as the linchpin for "taking a wide variety of disparate connections that we have with our customer and stitching them together organizationally and beginning to really build the capability to have a much more consistent, deep and holistic view of our customers as individuals."

A big part of that is on mobile, he added, and "making sure that people have an incredibly easy shopping experience and checkout experience on the mobile device, but the content is relevant, so that needs a responsive website, which we're largely towards achieving right now. And then, obviously, content and the **digital** experience that shows up on a screen that's 2.5 by 5 inches

at the end of the day, and so that's something where we're very focused for us."

"Overall, our traffic has grown and it's grown with **digital**. If I were a retailer out there who was looking at this and was seeing my traffic being directly substituted from my stores to a desktop to a laptop to a mobile device, I would really start to worry about that bucket leaking out the of the business. And so we're committed to making sure where our customer is. And our customer today increasingly is on a mobile device, which means a great mobile shopping **brand** and e-commerce experience."

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